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Value Adding Management: A New Facilities Management Concept

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ABSTRACT

Purpose: To investigate how Facilities Management (FM) can add value and develop a management concept that can assist facilities managers in implementing value adding strategies and practices.

Theory: The study is based on the management model for FM included in the European FM standards, recent theories on added value of FM and real estate and the related concept of Value Management from building projects. The study is related to the EuroFM research group on The Added Value of FM.

Design/methodology/approach: The study outlines a preliminary theoretical based management concept, which is investigated, tested and discussed based on a case study of an international corporation.

Findings: The study shows that the management model for FM creates a relevant starting point but also that stakeholder and relationship management is an essential aspect of Value Adding Management. The case study confirms the relevance of the basic concept and provides an important example of how Value Adding Management can be implemented and added value measured.

Originality/value: The study develops a concept of Value Adding Management, which is new in FM literature. It is expected to increase the awareness of the impacts and strategic importance of FM for organisations and can be a practical tool for facilities managers in implementing value adding strategies and practices.

Type of paper: Scientific study

Keywords

Facilities Management, FM model, Added Value, Value Management, Management Concept.

1 INTRODUCTION

In recent years it has become more and more evident that FM needs to deliver added value to the core business and it is no longer sufficient to make cost reductions. Many FM organisations have realized that and work on developing new competences and management tools to achieve it.

There have also been some research projects on this topic and various conceptual models have been proposed.

The purpose of this paper is to investigate and develop a new management concept for “Value Adding Management”, which can support FM organisations in their attempts to deliver added value in a systematic way. The concept will focus on the effectiveness of FM and is seen as supplementary to internal process management focusing on efficiency of FM. It will address the relationships between a FM organisation and the core business it supports on strategic, tactical and operational level, but it will also take relationships to all relevant stakeholders into account, including society at large for instance with regards to the contribution of FM to sustainability and corporate social responsibility.

The development of the concept will be based on various management theories, conceptual models and case studies from FM organisations and by inspiration from the concept of Value Management as it has been developed in relation to building projects. The concept is also developed and reality checked in connection with an ongoing in-depth case study in a FM organisation with a strong focus on value adding.

The research is related to the EuroFM research group on The Added Value of FM. The idea of Value Adding Management was introduced by this group at a presentation during a plenary session with a panel debate on “FM and Added Value” involving researchers and practitioners at EFMC2010 in Madrid, 1-2 June 2010 (Jensen et al., 2010). This paper is the first attempt to develop the concept and it is expected to be further developed.

2 METHODOLOGY

The preliminary management concept is based on former research by the first author on FM organization and added value as well as related other research literature. It is structured according to the FM model in the European FM standard on Terms and Definitions (CEN/TC 348, 2006) and further elaboration in the working group, which has produced the proposed standard on FM Taxonomy (CEN/TC 348, 2008 and 2010a). The first author has been member of the working groups for both of these European standards. The proposed standard on FM processes (CEN/TC 348, 2010b) is also used as a basis.

The case study is based on two visits by both authors to LEGO’s headquarters and main production facilities in Billund, Denmark, including interviews with senior director, Leif Møllebjerg, and walkthroughs in May and August 2010 as well as conference presentations by Møllebjerg (2009 and 2010). The interviews were recorded and written minutes have been sent to LEGO for comments. In this paper the results of the case study of relevance for the management concept is summarized in concentrated form due to space limitations.

3 THEORY AND THE PRELIMINARY MANAGEMENT CONCEPT

The management model of FM in the first European FM standard (CEN/TC 348, 2006) is based on a distinction between the demand side with the primary processes and activities of an organisation on the left side and a supply side with support processes and facility services from internal and/or external provider on the right side. The relationship is based on a FM agreement and specifying the demand is done by SLA’s (Service Level Agreements), while delivering the

supply is measured by KPI's (Key Performance Indicators). The interaction between demand and supply takes place on the three levels: strategic, tactical and operational, which on the supply side are related to client, customer, and end user, respectively. A version of the model with typical roles is shown in Figure i.

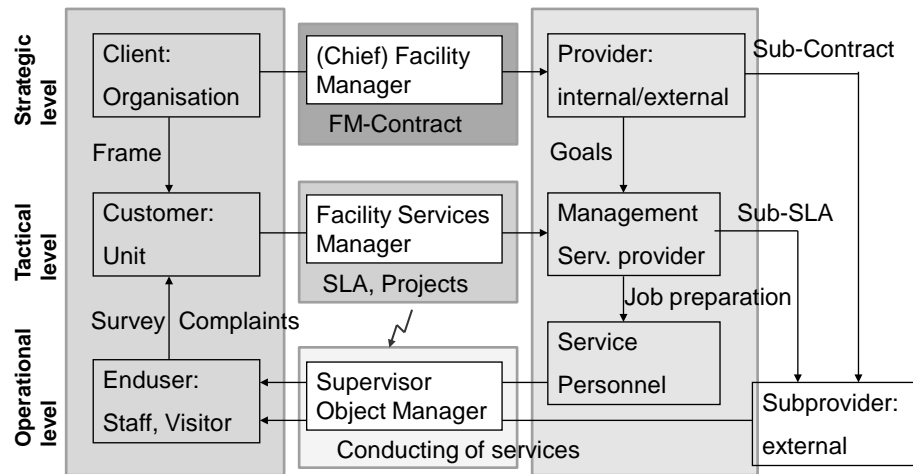


Figure i FM model with typical roles (CEN/TC 348, 2008)

The terms 'value' and 'added value' are used with many different meanings. This paper builds on the understanding presented in Jensen (2010), where added value is mostly related to use value and covers qualitatively different and improved output by increased effectiveness. Thus, added value is understood as positive impacts, which brings benefits or improvements to an organisation and relevant stakeholders. These benefits or improvement can be economical like cost reductions, but the main emphasis is on non-economic impacts. In the FM context it means focusing on the effects and impacts of FM on the core business and possible the surroundings.

Value Adding Management (VAM) is in general a management concept aiming at optimizing the added value provided by one organisation or organisational unit – the supply side – for another organisation or organisational units – the demand side. In the FM context, VAM is concerned with how a FM organization can add value to a core business and to relevant stakeholders internally and externally. VAM focuses on the relationships between FM and core business and involves management of all relevant stakeholders.

Jensen (2007) investigates the organisational relationship between FM and core business on strategic and operational level with inspiration from theory on governance (Williamson, 1993) and forms of coordination (Grandori, 1997). The conclusions are that for decision-making related to strategic FM concerning common corporate capacity and infrastructure, it is important to create a close collaboration and alignment between the FM organisation and the core business to achieve the necessary business orientation. Such collaboration could take the form of a coalition managed by a forum of representatives from FM and the different parts of the company. In the case of conflicts and disagreements, the company board of directors could act as a steering committee. As a contrast for FM provisions with a differentiation in relation to various internal users, de-centralised decision-making seems to be the obvious solution. That is particularly the

case where the quality of the provision is easily defined and understood by both parties, and in those cases price seems to be the best form of coordination and a service orientation is essential. Examples of this could be cleaning, catering, internal removals, hiring of conference rooms, and procuring of standard products. For more complex provisions with the need for dialogue about specific customisation, more centralised decision-making may be needed involving negotiation between managers at some level. Space management issues, like rebuilding projects and workplace design, could be typical examples.

Based on this it seems essential that the relationship management in VAM is differentiated on the three level as shown in Table 1.

Table 1 VAM relationship differentiation

Level	Demand side	Relationship focus	Coordination
Strategic	Client	Business orientation	Coalition
Tactical	Customer	Customer orientation	Negotiation
Operational	End user	Service orientation	Price or included in rent

Business orientation means that considerations for the whole corporation is in focus and this calls for joint decision making involving all main stakeholders at management level, which can take the form of a coalition. Customer orientation means that the specific needs of each business unit are in focus and this calls for a bilateral negotiation and decision making. Service orientation means that individual users' needs are in focus and the services are either provided based on price per order or included in rent or similar. This includes for instance catering, travel arrangements, moving, equipment and IT-support.

Value Management (VM) is a concept or method, which has been developed in relation to building project management over the last 20 years starting in the UK. It is derived from the concept of Value Engineering, which is a method for economical and functional optimization of a project during the development of a design with a strong focus on finding cheaper alternative solutions that fulfill specified functional requirements. VM is mostly used in the early project phases as a method for identifying building client values and preferences with the aim to make them an explicit part of briefing requirements. VM is typically organised as facilitated workshops with participation of representatives from the main stakeholders. Later during the design process there can be further VM workshops arranged to evaluate design alternatives and prioritize the preferences more specifically (Kelly and Male, 1994).

This means that VAM and VM are quite different concepts. VM concerns client values in a building project while VAM concerns added value for an organisation. However, both concepts are focusing on achieving optimal value and what counts as value or added value has to be identified. Therefore, it is important also in relation to VAM that there is a dialogue between the demand side and supply side about what can be regarded and accepted as value adding. This is in line with the findings by Price et al. (2009) that the perception of the performance of FM organisations is socially constructed and that communication between facilities managers and representatives of core business at all levels are essential. This could result in the formulation of an overall strategy for how a FM organisation plan to implement VAM.

The literature on added value of FM and real estate includes a number of different models and parameters for value adding (Jensen, 2010, Jensen et al., 2010, Lindholm, 2008, Vries et al., 2008). In a comparison these have been grouped in the following four categories: People, Process, Economy and Surroundings (Jensen, 2010). The proposed standard on FM processes (CEN/TC 348, 2010b) includes a number of typical FM processes at strategic, tactical and operational levels. The processes most directly involving the relationship with core business and the added value parameters are seen as important aspects of the VAM concept. In table 2 these processes are listed together with proposed parameter divided on the three levels.

Table 2 VAM processes and parameters

Level	FM Processes	Value Adding	
		Category	Parameter
Strategic	Alignment with organizations strategy and changes Investments and strategic projects Reporting to senior management Strategic space planning Identifying demand for facilities and facility services Consulting senior management Communication and change management Risk analyses	People	Client satisfaction
		Process	Culture (image, identity)
		Economy	Reliability
		Surroundings	Adaptability
Tactical	Evaluation of facilities Evaluation of performance of FM organization Space planning and evaluation Auditing Health, Safety, Security and Environment Coordination of business units Communication and change management	People	Total cost of ownership and FM
		Process	Asset value
		Economy	Sustainability
		Surroundings	Corporate Social Responsibility
Operational	Monitoring and evaluation of the performance of facility services Data collection and administration Reporting on facilities and facility services Communication with end users Service deliveries	People	Customer satisfaction
		Process	Productivity
		Economy	Flexibility
		Surroundings	Internal rent
		People	Project cost
		Process	Energy consumption
		Economy	Emissions
		Surroundings	

One of the most challenging aspects of VAM is how to measure the added value. This will probably have to include both qualitative and quantitative measurements. A possible method could be the Balanced Score Card (Kaplan and Norton, 1996), which is probably the most commonly used management measuring method besides financial measurements. This could involve that the facilities managers together with client and customer representatives select a number of the above parameters and on an annual basis define measurements and targets for

each parameter, which are measured over the following year and evaluated. This could form a specific VAM score card or be integrated in a general score card for the FM organization.

4 CASE STUDY FINDINGS

LEGO is a Danish family owned company producing construction toy products for the global market. LEGO's headquarters is placed in Billund in the middle of Jutland, but they have production facilities and sales offices around the world. The LEGO group has approx. 9.000 employees. FM in LEGO is a part of LEGO Service Centre (LSC), which is an integrated business unit encompassing support services such as information technology (IT), human resources (HR), indirect procurement and reception besides FM. The FM unit is responsible for all LEGO's facilities around the world.

LSC as an operational department aims to be seen as a "valuable asset" which can deliver highly professional services that supports the business in a way that cannot be brought anywhere rather than only perceived as a "cost centre". By doing that, LSC not only provides day-to-day services but also drives value added from its services by optimizing efficiency and effectiveness. LSC makes a distinction between value add (VA) activities and non value add (NVA) activities. NVA activities are day-to-day jobs to support LEGO's core business, while VA activities are based on business cases or are activities that create extra value to LEGO's core business. VA stems from changing value streams, breaking normal services or changing business processes, thus it requires collaborations across the existing organizational silos.

FM as a part of LSC starts up a business plan and a work scheme. From the business case, corporate finance will assess the possibility of the project and decide whether to subsidize the project. For the international level, LSC engage local contractors such as architects, engineers and contractors but they are monitored by LSC's global project management team. The following are added value processes based on bottom up initiatives from LSC spanning across LEGO's organization:

- I. Interpreting the organization core business and define what is effectiveness and efficiency
- II. Setting up added value goals
- III. Proposing added value business cases
- IV. Dialogue with stakeholders
- V. Communication among LSC employees

VA can be measured into financial and non-financial value, financial value examined by cost reduction and non-financial value by volume (number of standardized services part of the service catalogue), quality (measured for instance by satisfaction surveys) and flexibility (number of not standardized services). It can also be shown as CO₂ emission reduction, environmental portfolio and green account. An added value report is a supplementary part of the financial report, which is delivered to LSC's client and customers. The objective of FM is to deliver minimum 5% value adding every year. This is measured by the so-called value add equation:

$$\text{Value add} = \text{Volume} * \text{Quality} * \text{Flexibility} / \text{Cost}.$$

This is further described in Jensen et al. (2010). Only initiatives which are initiated by LSC and recognized as adding value by the customers benefitting from the initiatives are accepted as VA and can be included in the calculation. The value equation is seen as a performance measurement tool and a basis for dialogue with internal stakeholders, but also as a tool internally for the staff in the FM unit to put focus on why we are here.

An example of a VA business case is the “LEGO look and feel” concept. This involves the interior decoration and layout of both the main foyer and common spaces in administrative areas with a modern design utilizing LEGO products as design objects and thereby putting focus on LEGO’s brand for both visitors and staff. LSC provides projects as part of this concept to a fixed price to LEGO’s client and customers. Other examples of VA is changing office layout with space reduction while sustaining employee satisfaction and reducing cooling temperature for molding machines in production facilities with huge reduction in energy consumption and CO₂ emissions while sustaining product quality.

The relationship between LSC and its internal stakeholders is shown in Table 3. LSC posits itself as a middle management moderator between a strategic level and an operational level. To maximize delivered service values, LSC needs to juggle the mutual interest between each stakeholder, for instance LEGO governance, management level, business unit and end users.

Table 3 LSC’s relationships with LEGO’s core business

Stakeholder	Communication channel	Target Group	Purpose
Client	Leadership team survey and meeting	Top 40 management level included vice president	Where are we?
			Do they see LSC as added value to LEGO business?
			What are we doing with added value?
			Is LSC a good partnership with LEGO?
	LSC Facility Committee meetings	Comprising of CFO, head of LEGO Corporate Center, head of Global Supply Chain, head of LSC and by invitation head of Marketing & Products and head of Customer & Education Division	Prioritizing LSC services and makes decision across the board
			Aligning LSC services with business process
Customer	Customer meetings	Customers are director level and above	Agreement on key performance indicator (KPI) and service level agreement (SLA)
	Customer survey		Do they understand/ know LSC services?
End users	User survey	Users are everyone below director level	Do they understand/ know LSC services?

FM as a part of LSC has to compromise needs of end users, customers, and LEGO governance, thus it is necessary to understand the needs by creating the communication channels to align its service delivery with their expectations. Balanced Scorecard is used as a strategic management tool at the global level to measure the performance of the global service center and how it delivers to the local needs at the local price by compromising between global service with local needs, culture, system and price.

The management of LCS participates in an annual meeting with LEGO's top management – the leadership team – to evaluate performance and discuss development plans. In order to align strategic management decisions between top management and FM on a continuous basis, LEGO has established LSC Facility Committee with the main focus on the three aspects: projects, capacity, and competency. The meetings are held every 6 weeks. An example of the procedure is the situation, when LEGO want to expand with a new production line. The Facility Committee will ask for collaboration from head of Global Supply Chain, CFO and FM to create the dialogue on the strategic level across the LEGO organization. The FM unit will investigate a number of alternative locations and these will be evaluated by the main stakeholders and decisions will be made jointly by the members of the Facility Committee.

LSC's service levels are negotiated and decided bilaterally with the management of each business unit as customers. LSC also measures their performance based on satisfaction surveys by regular intervals. These surveys are differentiated in relation to the client, customers and end users as shown in Table 3. Typical questions include:

- How do they understand FM service?
- How easy to access our service
- Do we support business strategy?
- Do we have same understanding of our service and your needs?
- How to raise the understanding of FM service
- Does FM support core business and its operation?
- Does FM deliver its service as promised? Matching promise and reality (how it is described and how it happened)

5 DISCUSSION AND CONCLUSION

This paper has presented a management concept for value adding, which is new in FM literature and as far as we know in management literature in general. The empirical findings show that FM in LEGO represents an exemplary case of an organization actually practicing VAM without using this exact term. The management in LSC is actively working with adding value by FM to the core business. They have established procedures and communication channels for defining what can be accepted by the core business as representing value adding by FM. The communication is differentiated between the client at strategic level, the customer at tactical level and the end users at operational level in line with the European FM standards and the preliminary VAM concept.

The Facility Committee is a clear example of a coalition between FM and top management making joint decision making about strategic investments with an overall business orientation.

The specific FM service levels are negotiated and agreed bilaterally with each business unit and thus differentiated with a customer orientation. The individual services are delivered to the end users with a service orientation. On each level the performance is measured by differentiated satisfaction surveys by regular intervals. LEGO has even developed a method to quantitatively measure the value adding.

One can question whether LEGO's value add equation is the right or an appropriate way of measuring value adding by FM. As the stakeholders in LEGO seem to have agreed on this measure, it must be regarded as appropriate for them. Other companies may find other ways to measure value adding. It would be interesting to find other cases to make comparisons and perhaps develop a generic measuring method. That would be a valuable refinement of the preliminary VAM concept. Another possible development of the framework would be to connect the FM processes and the parameters of value adding, which are shown in table 2.

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